

Message Text

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INFO OCT-01 EUR-12 ISO-00 PA-01 PRS-01 USIA-06 FEA-01

ERDA-05 AID-05 CEA-01 CIAE-00 CIEP-01 COME-00 DODE-00

FPC-01 H-02 INR-07 INT-05 L-02 NSAE-00 NSC-05 OMB-01

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R 181853Z APR 75

FM AMEMBASSY LONDON

TO SECSTATE WASHDC 0361

INFO AMCONSUL EDINBURGH

C O N F I D E N T I A L SECTION 01 OF 02 LONDON 05944

E.O. 11652: GDS

TAGS: ENRG, UK

SUBJECT: PETROLEUM AND SUBMARINE PIPELINE BILL: INDUS-
TRY REACTION TO CREATION OF BRITISH NATIONAL OIL CORPORA-
TION AND NEW NON-FISCAL CONTROL MEASURES

REF: (A) LONDON 5478; (B) LONDON A-729 DATED SEPTEMBER 12, 1974

1. OIL INDUSTRY OFFICIALS HAVE UNIFORMLY INDICATED THEIR AS YET LARGELY PRIVATE DISPLEASURE WITH DRAFT PETROLEUM BILL, OUTLINED REFTTEL (A), WHICH ENERGY SECRETARY ERIC VARLEY PLACED BEFORE PARLIAMENT ON APRIL 9. INDUSTRY DISTASTE FOR CONCEPT OF A BRITISH NATIONAL OIL CORPORATION (BNOC) HAS BEEN REINFORCED BY PROVISIONS GRANTING TO SECSTATE FOR ENERGY WIDER THAN ANTICIPATED POWERS OVER ITS OPERATIONS. PROVISION FOR NOMINATION OF CIVIL SERVANTS TO SIT ON BNOC BOARD OF DIRECTORS AND CLEAR SUBORDINATION OF BNOC TO WISHES OF SECSTATE FOR ENERGY ARE VIEWED WITH SUSPICION. SIMILARLY, BILL AS WRITTEN AFFORD SECSTATE WHAT INDUSTRY CONSIDERS TO BE FAR TOO BROAD DIS-
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CRETIONARY POWERS OVER EXPLORATION AND DEVELOPMENT PRO-

GRAM AND PIPELINE OPERATIONS. INDUSTRY OFFICIALS ARE DISTURBED BY LACK OF PROVISIONS FOR ARBITRATION AND COMPENSATION IN EVENT LICENSE IS REVOKED BY SECSTATE FOR NON-COMPLIANCE WITH HIS DIRECTIVES AS WELL AS BY RETROACTIVE ASPECT APPLYING NON-FISCAL MEASURES TO EXISTING LICENSES.

2. COMPANIES ARE STILL STUDYING CONTENTS OF 142-PAGE BILL BUT HAVE FOCUSED INITIAL OBJECTIONS LARGELY ON PRODUCTION CONTROL AND PIPELINE PROVISIONS ENABLING SECSTATE IN "NATIONAL INTEREST", REGARDLESS OF ECONOMICS INVOLVED, TO REQUIRE ADDITIONAL EXPLORATION OR DEVELOPMENT EXPENDITURES TO BE MADE; TO CAUSE DELAY IN FIELD DEVELOPMENT EVEN AFTER APPROVED PROGRAM BEGUN; TO CHANGE ROUTING CAPACITY AND PARTICIPATION IN SUBMARINE PIPELINES; AND TO ACQUIRE REVERSIONARY RIGHTS IN PIPELINES AFTER CERTAIN NUMBER OF YEARS. CLAUSE EXEMPTING BNOC FROM PAYMENT OF PETROLEUM REVENUE TAX (PRT) IS SEEN AS UNDERLINING POTENTIAL FOR UNFAIR COMPETITION PRIVATE COMPANIES FEEL THEY MAY FACE IN TIME FROM BNOC.

3. INDUSTRY REPS NOTE THEY HAD HOPED BEFORE VARLEY'S ANNOUNCEMENT THAT PETROLEUM BILL WOULD BE WHAT THEY CONSIDERED A REASONABLE PIECE OF LEGISLATION. DURING EXTENSIVE CONSULTATIONS AMONG INDUSTRY AND DEPARTMENT OF ENERGY OFFICIALS FROM SEPTEMBER 1974 - JANUARY 1975, GOVERNMENT HAD TAKEN INTO ACCOUNT LARGE NUMBER OF CHANGES SUGGESTED BY UK OFFSHORE OPERATORS ASSOCIATION (UKOOA). HOWEVER, OVER A MONTH AGO GOVERNMENT TABLED A NUMBER OF NEW, TOUGHER PROVISIONS WHICH VARLEY NOW HAS SAID EITHER CANNOT BE ALTERED AT ALL OR MUST BE DISCUSSED AND POSSIBLY AMENDED AT COMMITTEE STAGE OF PARLIAMENTARY CONSIDERATION. VARLEY REPORTEDLY TOLD ONE INDUSTRY OFFICIAL HE WANTS PETROLEUM BILL TO PASS HOUSE OF COMMONS BY JULY AND THAT HE MIGHT INVOKE "GUILLOTINE" TO ACCOMPLISH THIS. ACCORDINGLY, PARLIAMENTARY OPPOSITION COULD BE FACED WITH PROLONGED BATTLE OVER FIRST PART OF BILL ONLY TO BE DENIED ADEQUATE OPPORTUNITY TO SUBSEQUENT CLAUSES. ENERGY DEPARTMENT OFFICIAL VOLUNTEERED, HOWEVER, THAT HE EXPECTED DEBATE MIGHT WELL GO OVER UNTIL SEPTEMBER.

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4. MONGER (DEPARTMENT OF ENERGY) TENDS TO DISCOUNT INITIAL REACTION OF INDUSTRY REPRESENTATIVES AS PARTLY NEGOTIATING TACTICS. AT SAME TIME HE RECOGNIZES THERE WAS GENUINE SURPRISE AT SEEING GENERAL PRINCIPLES OF NON-FISCAL CONTROLS TRANSLATED INTO SPECIFIC LANGUAGE IN SECOND STAGE OF CONSULTATION WITH INDUSTRY. MONGER BELIEVES IT WOULD BE HARD TO AVOID A CERTAIN "COOLING OFF"

IN RELATIONS BETWEEN HMG AND COMPANIES ONCE GOVERNMENT
BEGAN TO ASSERT ITSELF IN TAKING NECESSARY REGULATORY
POWERS OVER OIL AND GAS OPERATIONS. MONGER SAID GOVERN-
MENT HAD TRIED TO DISTINGUISH BETWEEN ROLE OF BNOC WHEN
IT ACTS AS AGENT OF DEPARTMENT OF ENERGY AND WHEN IT IS
INVOLVED AS PARTNER IN STRICTLY COMMERCIAL OPERATIONS.
PROPRIETARY INFORMATION FROM PRIVATE COMPANIES WOULD
FLOW ONLY TO DEPARTMENT AND NOT TO BNOC.

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5. COMMENT: IT NOW APPEARS PETROLEUM BILL MAY FOLLOW
SCENARIO ANALOGOUS TO THAT OF PRT WITH INDUSTRY, CON-
SERVATIVE OPPOSITION AND HMG STAGING FULL-SCALE POLITICAL
DEBATE IN PRESS AND PARLIAMENT. INDUSTRY HAD HOPED TO
AVOID SUCH A RESULT BUT MOST INDUSTRY OFFICIALS AGREE IT
WOULD BE DANGEROUS TO ACCEPT BILL WHICH GIVES SWEEPING
POWERS WITHOUT RECOURSE TO GOVERNMENT MINISTER WHO MIGHT
BE TEMPTED TO MAKE EXPLORATION, DEVELOPMENT OR DEPLETION

DECISIONS BASED ON POLITICAL CONSIDERATIONS OR ON BNOC
AS OPPOSED TO PRIVATE COMPANY INTERESTS RATHER THAN ON
GOOD OIL FIELD PRACTICE OR STRICTLY ECONOMIC CRITERIA.
MORE THAN ONE COMPANY REPRESENTATIVE HAS SUGGESTED THAT,
GIVEN INCREASINGLY DIFFICULT AND POSSIBLY DESPERATE
ECONOMIC SITUATION BRITAIN MAY FACE IN FUTURE, IT WOULD
BE IMPRUDENT FOR INDUSTRY NOT TO INSIST ON APPROPRIATE
ARBITRATION AND COMPENSATION PROVISIONS.

6. SO FAR AS BNOC IS CONCERNED, IT IS CERTAIN CONSERVA-
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TIVE OPPOSITION WOULD FAIL IN ANY ATTEMPT TO OVERRIDE
LABOR PARTY DOCTRINE AND LIMIT BNOC'S SCOPE TO THAT OF
LARGELY REGULATORY BODY. MAIN QUESTION FOR OPPOSITION IS
WHETHER IT SHOULD ATTEMPT TO RESTRICT BNOC TO ESSENTIALLY
COMMERCIAL "YARDSTICK" OPERATIONS OR ACCEPT NEW ENTITY
HAVING BOTH COMMERCIAL CHARTER AND STATUS AS QUASI-
GOVERNMENTAL AGENT OF SECSTATE FOR ENERGY.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: LEGISLATIVE BILLS, SUBMARINES, PETROLEUM PIPELINES
Control Number: n/a
Copy: SINGLE
Draft Date: 18 APR 1975
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: WorrelSW
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1975LONDON05944
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: GS
Errors: N/A
Film Number: D750137-0014
From: LONDON
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1975/newtext/t19750438/aaaabjoo.tel
Line Count: 194
Locator: TEXT ON-LINE, ON MICROFILM
Office: ACTION EB
Original Classification: CONFIDENTIAL
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 4
Previous Channel Indicators: n/a
Previous Classification: CONFIDENTIAL
Previous Handling Restrictions: n/a
Reference: 75 LONDON 5478, 75 LONDON A-729
Review Action: RELEASED, APPROVED
Review Authority: WorrelSW
Review Comment: n/a
Review Content Flags:
Review Date: 23 JUN 2003
Review Event:
Review Exemptions: n/a
Review History: RELEASED <23 JUN 2003 by ShawDG>; APPROVED <04 NOV 2003 by WorrelSW>
Review Markings:

Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
05 JUL 2006

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: NATIVE
Subject: PETROLEUM AND SUBMARINE PIPELINE BILL: INDUS- TRY REACTION TO CREATION OF BRITISH NATIONAL OIL CORPORA-
TAGS: ENRG, UK
To: STATE
Type: TE
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 05 JUL 2006